



Fresno Madera Farm Credit

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May 21, 2014

Mr. Barry F. Mardock
Deputy Director
Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

Re: Standards of Conduct Proposed Rule

Dear Mr. Mardock:

On behalf of our shareholders, Fresno Madera Farm Credit is pleased to share our comments regarding the proposed rule relating to Standards of Conduct for the Farm Credit System and its institutions. We are pleased to participate in this process and add our comments to those also submitted by our funding bank, CoBank as well as those submitted by the Farm Credit Council on behalf of the entire Farm Credit System.

Fresno Madera Farm Credit believes that the responsibility for ethical behavior and conduct lies with the individuals that serve on the board and also the employees that serve the membership. We acknowledge that it is critical for an institution to have an appropriate Standards of Conduct policy accompanied by ongoing training with directors and employees which then creates a culture of disclosure. We believe this is necessary so that the conduct of our directors and employees may be consistent with the values and ethics that we as an organization profess.

General Concerns

We find that the proposed rule contains components that are ambiguous and over-reaching, and also create unnecessary burden on directors, and the institution, including the Standards of Conduct Official.

In particular, we have the following general areas of concern.

The burden of ethical conduct and disclosure shifts from the individual director and employee to the institution: The rule indicates a clear shift in philosophy as accountability and the burden of disclosure moves away from the individual to the institution, and the Standards of Conduct Official. Institutions can provide training, and create an appropriate culture, but ethical conduct is the ultimate responsibility of the directors and employees that in aggregate create the full sum of each institution. A culture of ethics and compliance can only be as strong as the level of responsibility demonstrated by each of the individuals that comprise the organization and so that is where the accountability must lie.

The proposed rule may have the unintended consequence of discouraging some members from considering board service: The cooperative business model is heavily dependent on the ability to

attract the best available candidates from the membership for open board positions. The proposed rule significantly increases the number of transactions that are subject to the review of the Standards of Conduct Official in a process that will now become bureaucratic and cumbersome. Our elected directors are all full time farmers and ranchers, and the proposed rule will negatively and unfairly impair their ability to make timely business decisions.

The proposed rule and related requirements undervalues the delegation of lending and pricing decisions to management: Many organizations, including Fresno Madera Farm Credit have delegated all lending and pricing decisions to the management team of the Institution. These delegations have become common for all institutions, and have significantly reduced the amount of customer level information available to individual directors. In addition, it has virtually eliminated the potential for conflicts with loan-related decisions, including pricing.

In addition to our general concerns, we have indicated our specific concerns below along with suggested changes and modifications to the proposed rule. We have arranged our comments by section.

DEFINITIONS

- The definition of the term “Agent” is too broad and far-reaching, and should be further defined by the FCA to make compliance easier to achieve.
- The definition of the term “Employee” is too broad and should be replaced by “*any officer or part-time, [or] temporary employee*”; the current definition may exclude certain employees such as certain contract employees that do not meet the definition in the proposed rule.
- The definition of the term “Family” now includes the phrase “*...and anyone whose association or relationship with the director or employee is the equivalent of the foregoing.*” This phrase is problematic and unrealistic as it significantly expands the definition beyond what can be described or known in legal terms or objective terms. We request that this phrase be removed.
- The definition of the term “Material” is too broad and creates the likelihood that each institution will create their own threshold for materiality making the idea of materiality a relative concept as it applies to Standards of Conduct. The FCA should further define the materiality threshold to avoid inconsistency between institutions, and also to make compliance easier to achieve.

RESPONSIBILITIES OF CONDUCT

- This section now includes a phrase “*...and guidance of the Farm Credit Administration.*” that is of significant concern to Fresno Madera Farm Credit. The inclusion of this phrase would place the guidance provided by FCA on par with the regulation itself. In particular, we believe that under the proposed rule each respective FCA examination team could apply its own unique guidance on the Standards of Conduct regulation, and further complicate our ability to comply with the regulation. More seriously, we believe that this added phrase would enable the FCA to circumvent the rule-making process and the comment period that accompanies proposed rule changes. Furthermore, the guidance provided by FCA can vary by individual making it more difficult to demonstrate compliance.

CONFLICTS OF INTEREST

- The preamble of the proposed rule includes an example of a transaction between a director and a known borrower involving a piece of farm equipment; in the example, the FCA indicates this

type of a transaction as a conflict of interest. We strongly believe that financial transactions between cooperative members are common as the agricultural community is in fact known as one that features highly networked participants. The vast majority of the financial transactions between members and directors are in fact undertaken in the normal course of business. We do not believe that transactions that occur in the normal course of business should be required to be submitted to the Standards of Conduct Officer for either pre-approval, or post-approval.

Specifically, the example illustrates what the expected course would be for most transactions between directors and members of Fresno Madera Farm Credit in that the director would need to immediately disclose, and not proceed with the transaction until the Standards of Conduct Official formed a written judgment as to whether the transaction should be permitted.

We believe that this rule would undermine the directors' ability to operate their farm or ranch efficiently, and would put them at a disadvantage.

As a result, we believe that FCA should further clarify their definition of business that is transacted in the "normal course of business", and also make clear that approvals of any kind are not necessary for transactions that occur in the normal course of business.

DIRECTOR AND EMPLOYEE REPORTING

- The proposed rule requires employees and directors to disclose to the Standards of Conduct Official information that he or she 'knows' or 'has a reason to know'. As it regards information that pertains to the rule, our employees and directors will either know, or they will not know. They cannot disclose information that they do not know, and the Standards of Conduct Official will not be in a position to discern which is the case. We strongly believe that if an employee or director knows information as described in the proposed rule, it is incumbent on them to disclose. The FCA should remove the phrase "...or has a reason to know."
- The proposed rule clearly implies that directors and employees know about all of the financial transactions of their relatives. In practice, directors and employees do not know about all of the financial transactions undertaken by all of their relatives.

DIRECTOR AND EMPLOYEE PROHIBITED CONDUCT

- The proposed rule requires that all conflicts of interest are handled on a prior approval, case-by-case basis and cannot be undertaken in any event on a post-approval basis. This will significantly increase the burden of compliance unnecessarily. The ability to retain the ability to post-approve transactions is critically important in order to maintain our culture of full disclosure.
- The proposed rule requires that all disclosed conflicts be re-approved every year. The proposed rule should be changed so that a renewal of the approval is required only when the underlying facts relating to the disclosed conflict change.

INSTITUTION RESPONSIBILITIES

- The proposed rule requires that FCA be notified of violations and 'suspected' violations 'immediately'. We believe that the requirement to immediately notify FCA of suspected violations would be counter-productive, and would essentially create a number of conversations that are based on incomplete information. This type of communication is counterproductive, time consuming, and unlikely to produce tangible outcomes given they are based on incomplete information.

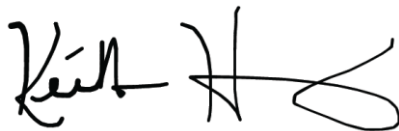
- As an institution operating in the State of California, we are aware that according to state law, by sharing privileged information with FCA we are effectively waiving our attorney client privilege that would otherwise apply. We believe that the final rule should clearly state that the requirement to share information does not apply to privileged information in order to preserve the Association's attorney client privilege.

CODE OF ETHICS

- The proposed rule requires the Institution to require that all Agents not subject to ethics standards sign the institution's Code of Ethics provisions. We believe that this requirement is unusual, and will reduce the number of firms willing to conduct business with our institution. When presented with a Code of Ethics document, many firms may feel that they are accepting additional and unique risk by performing work for our organization given that other firms are not bound by such a requirement.

We appreciate the opportunity to comment on the proposed rule regarding Standards of Conduct, and appreciate your consideration of our concerns and the recommendations that we have made regarding changes that could improve the final rule. Please let us know if we may comment further, or add details to the concerns that we've included in our letter.

Sincerely,

A handwritten signature in black ink, appearing to read 'Keith Hesterberg', with a stylized flourish at the end.

Keith Hesterberg
President & CEO